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CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

ASWAN HIGH DAM Page 1

Statements from Cairo suggest that the Nasr regime is attempting to conceal the disappointment and uncertainty caused by the West's decision not to finance the initial stage of the Aswan High Dam project at this time. Cairo's discomfort apparently is being increased by conflicting reports on the attitude of the USSR, which has three times in the past week denied committing itself to the support of the project, but has not closed the door to later negotiations. [REDACTED]

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ARAB-ISRAELI SITUATION Page 2

UN secretary general Hammarskjold's visits to Jerusalem, Amman and Cairo passed quietly with no immediately apparent results save an announcement he would return in October. While there was a lull in border incidents during his stay in the area, new clashes occurred soon after his departure. [REDACTED]

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PART II

NOTES AND COMMENTS

DE-STALINIZATION PROBLEMS Page 1

As the anti-Stalin campaign moves into its sixth month, Soviet leaders are still trying to find satisfactory formulations for the respective roles of Stalin, the Communist Party, and other elements in the successes and failures of the Soviet state. The Soviet Defense Ministry's newspaper, Red Star, has partially repudiated an earlier position, and has stated that through Stalin's fault, Soviet industry and armed forces were not properly mobilized when war began. On the question of the relationship between the foreign Communist parties and the USSR, two Pravda editorials and a speech by party presidium member Suslov to the French Communist Party's 14th Congress made clear that while Moscow wants unity in the international Communist movement, it does not want to give up the advantages of having the parties appear to be national and more independent. [REDACTED]

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PEIPING STILL CAUTIOUS**ON DE-STALINIZATION Page 2**

Peiping still seems to be steering a middle course between outright support of and nonparticipation in the Kremlin's de-Stalinization campaign. The Chinese Communists apparently hope to avoid intensive arguments among the party rank and file and to control whatever discussion may develop. [REDACTED]

DEVELOPMENTS IN HUNGARY**SINCE RAKOSI'S OUSTER Page 3**

Political developments in Hungary since the removal of party first secretary Matyas Rakosi on 18 July indicate a significant increase in the power of the moderate elements within the party. Many concessions to the demands of the moderates apparently have been granted by the new first secretary, Erno Gero. Official policy pronouncements stress the need for party unity and reflect an attempt to compromise conflicting views within the politburo and the central committee. Moscow-oriented Gero's tenure may be a temporary one, made for the purpose of restraining moderate elements during the initial phase of policy transformation. [REDACTED]

POLAND'S NEW DOMESTIC POLICIES Page 5

The speech of First Secretary Ochab to the central committee of the Polish United Workers (Communist) Party on 19 July, in which he advocated a policy of relaxation, indicates that the reported policy conflicts between the moderate and orthodox Polish Communists have been at least temporarily resolved. The scheduled reforms outlined by Ochab will probably not be sufficient, however, to win the co-operation of the public. [REDACTED]

NEW ICELANDIC GOVERNMENT Page 6

The six-man coalition cabinet which assumed office in Iceland on 24 July includes two representatives of the Communist-dominated Labor Alliance. Iceland's adherence to NATO is not immediately threatened, but the new government will undoubtedly press for revisions in the status of the American-manned Keflavik air base along the lines of the parliamentary resolution of 28 March calling for the withdrawal of American troops. The Communists' participation in the government may enable them to exercise a greater influence over the nation's economy with a view to building a strong political machine. [REDACTED]

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**PROSPECTS IN PERU
UNDER THE PRADO GOVERNMENT Page 7**

Manuel Prado, who is to be inaugurated as president of Peru on 28 July, is likely to continue the policies of his predecessor, which have made Peru one of Latin America's more attractive areas for foreign investment. However, Prado's political commitments to the non-Communist, leftist APRA, which supported him in the election, may lead to conflict between his conservative administration and the mass-supported APRA in the legislature. This might create conditions which would discourage foreign investment in Peru. [REDACTED]

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FRENCH NORTH AFRICA Page 9

The Algerian rebels, possibly supported by Moroccan guerrillas, have revealed their possession of more and better automatic weapons in a series of clashes with French forces in western Oran since 19 July. On the political front, Tunisia's withdrawal from negotiations with France on 13 July illustrates the sensitivity of the Bourghiba government on the subject of Tunisia's sovereignty. [REDACTED]

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THE FRENCH COMMUNIST PARTY'S 14th CONGRESS Page 10

The 14th Congress of the French Communist Party held at Le Havre on 18-21 July has confirmed Secretary General Maurice Thorez' control of the party. Emphasis was laid on unity of action with the Socialists, foreshadowing an intensified campaign for Communist-Socialist co-operation. Party organization problems received only perfunctory attention. [REDACTED]

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TRAVELS OF SOVIET LEADERS Page 11

The last two weeks have seen the greatest exodus of top Soviet leaders from Moscow since collective leadership was established after Stalin's death. As of 22 July, 12 of the 20 members of the presidium and secretariat, including the most prominent ones, were either on official trips in various parts of the world or vacationing. Such a dispersal suggests the existence of a high degree of mutual trust among the members of the collective. [REDACTED]

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**EUROPEAN AND ASIAN SATELLITES ANNOUNCE
ARMED FORCE REDUCTIONS**

Page 12

Czechoslovakia's announcement of 25 July that it would cut its armed forces brings to seven the number of Sino-Soviet Satellites that have followed the Soviet "example" of 14 May. Rumania, Hungary, and Poland, which, like Czechoslovakia, had followed the Soviet pattern of announcing reductions in the fall of 1955, have indicated they will make further cuts. East Germany, North Korea, and North Vietnam have announced reductions for the first time. Albania and Bulgaria thus far have not announced a second troop reduction. [REDACTED]

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**JAPANESE INCREASE AWARENESS
OF INTERNAL SECURITY THREAT**

Page 13

Japan's vulnerability to subversion stems more from the inadequacy of the government's security system than from the capabilities of the Japan Communist Party. The probability of renewed diplomatic relations with the USSR has made conservative leaders increasingly conscious of the security problem. The government probably will move slowly and cautiously to improve the situation. [REDACTED]

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**NEW CHINESE COMMUNIST TRADE
CAMPAIGN IN JAPAN**

Page 14

The pattern of Sino-Japanese trade since the beginning of 1956 suggests that Peiping has taken a new tack in its campaign to reduce American influence in Tokyo. By easing its demands for goods subject to trade controls, while ordering increased quantities of nonembargoed goods, Peiping is raising the level of its imports from Japan. Sino-Japanese trade negotiations are scheduled for next October, and pressures from business groups in Japan may bring about an exchange of permanent commercial representation at that time. [REDACTED]

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**SINO-SOVIET BLOC DRIVE
IN INDONESIA**

Page 15

With Indonesian president Sukarno scheduled to depart on 25 August for a tour of the Soviet Union, Eastern Europe and Communist China, the Sino-Soviet bloc is intensifying its political, economic, and cultural campaign in Indonesia in order to obtain maximum advantage from the visit. A Soviet technical assistance offer is now being considered by Indonesia, and a Soviet mission is soon to negotiate the first trade agreement between the two countries. [REDACTED]

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PART III

PATTERNS AND PERSPECTIVES

THE PLAN FOR SYRIAN-EGYPTIAN UNION AND
OTHER ARAB UNION PLANS Page 1

Syria's proposal for a union with Egypt, now under consideration, fits into a pattern of plans for various combinations of Arab states and for a union of all Arab states which have been advanced over a number of years. The idea of Arab union originates from a desire to achieve a united Arab front versus the West and, more important, against Israel. The proposal for Syrian-Egyptian union, particularly, must be viewed in the light of Syria's immediate wish for protection against Israel, and on the Egyptian side, in terms of Egypt's ambition to exclude Iraqi influence in Syria, Lebanon, and Jordan.

BRITAIN MODIFIES POLICY TOWARD SOVIET BLOC Page 4

Prime Minister Eden is shifting the emphasis of Britain's economic, defense, and foreign policies, apparently to prepare for an extended period of sharply competitive peaceful coexistence with the USSR. The belief in Britain that a general war is unlikely in the foreseeable future and the need to deal with the nation's economic ailments are leading London to consider a substantial switch in energy, money, and manpower away from the defense program.

SOVIET TRANSPORTATION IN THE SIXTH FIVE-YEAR PLAN . . . Page 7

Soviet goals for transportation in the Sixth Five-Year Plan (1956-1960) are designed to keep transportation facilities abreast of the country's fast economic development. They include increasing railway freight traffic by 42 percent, doubling highway and maritime transport, and increasing oil pipeline traffic sixfold. Plans for the railroads call for laying twice as much new track as during the previous five years, doubling the length of electrified lines, and greatly increasing the use of electric and diesel-electric locomotives. Prospects are that these goals will be fulfilled.

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PART I**OF IMMEDIATE INTEREST****ASWAN HIGH DAM**

Statements from Cairo suggest that the Nasr regime is attempting to conceal the disappointment and uncertainty caused by the West's decision not to finance the initial stage of the Aswan High Dam project at this time. Cairo's discomfort apparently is being increased by conflicting reports on the Soviet attitude; initial Egyptian reaction to these reports is an insistence that the Arabs can "go it alone" if necessary. Reactions from other Near East and South Asian countries, even though in some cases voicing approval of the Western action, are unanimous in interpreting the decision as based on political rather than economic grounds.

the Western power bloc, the major Egyptian propaganda effort appears to be to attack the economic argument in the Western announcements. In a speech on 24 July, Nasr accused the United States of spreading "lies" on the state of the Egyptian economy, [REDACTED]

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In addition to pique at the official explanation of the Western decision, Nasr's insistence on Egypt's ability to rely on itself to construct the dam may stem from uncertainty about the Soviet attitude.

Soviet Attitude

Since the refusal by the West to finance the high dam, the USSR has three times denied committing itself to the support of Egypt's high dam project, but has not closed the door to later negotiations possibly during President Nasr's trip to Moscow in August. The USSR's apparent coolness toward

While there have been stereotyped assertions that Western policy is guided only by a desire to force neutral countries into

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sponsoring the project may have resulted from a reassessment of the dam's ability to satisfy Egypt's economic needs and the over-all advantages to the USSR when weighed against the risks and the costs involved.

During the past week, statements by Soviet foreign minister Shepilov and ambassador to Egypt Kiselev suggest that the USSR will not renew its offer to finance the dam at this time. According to Ambassador Bohlen, Shepilov told correspondents "quite explicitly" at the Belgian embassy National Day reception on 21 July that industrialization was much more important to Egyptian development than the Aswan dam, and that the Soviet Union was prepared to consider Egyptian requests for assistance in industrial development.

In addition, an Egyptian newspaper report of a statement by Kiselev at a Polish embassy reception on 22 July that "Russia stands by her word as given to Egypt regarding financing the high dam project" brought an immediate denial from Kiselev, who said he merely reiterated Shepilov's statement,

"but I made no mention of the high dam." Further confusion was created by reliable press reports from a Cairo refinery dedication ceremony on 24 July that Kiselev said "We are ready to finance the Aswan High Dam if Egypt asks for it." That evening the Soviet embassy press attaché in Cairo issued a denial which said, "Ambassador Kiselev did not make any statement regarding the high dam today."

The refusal of the USSR to reaffirm its offer suggests previous reports that Shepilov had renewed the Soviet offer during his visit--this was denied by Shepilov--were fabricated or exaggerated by the Egyptian government to press the West into liberalizing its terms. However, as a result of the widespread impression that the USSR was bidding for the contract, Moscow will be under increasing pressure to honor its original offer. A Yugoslav broadcast has already challenged the USSR to take this opportunity to show its "real capacity and willingness...to give aid to underdeveloped countries."

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ARAB-ISRAELI SITUATION

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Hammarskjöld's visits to Jerusalem, Amman and Cairo passed off quietly with no immediately apparent results. While there was a slight lull in border incidents during the secretary general's stay in the area, new clashes of more serious proportions occurred soon after his departure.

Hammarskjöld reportedly warned both Israeli and Jordanian leaders that retaliatory raids did not constitute defense, but he seemed to have made little or no progress on the positive side in "narrowing the gap" between the Arab and Israeli stands regarding a settlement. On leaving Cairo on 23 July, he announced he

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plans to return to the Near East in October.

While the calming effect of Hammarskjold's mission last April lasted at least a few weeks, the effect of his most recent effort seemed to depart with him. There was an outbreak of serious fighting on the Israel-Jordan border

west of Jerusalem on 25 July. If peace is maintained in the area, it would seem to depend not on the secretary general's efforts but on fears, such as those expressed last week by Jordan's Chief of Staff Nuwar, who said he doubted his army could withstand an Israeli attack for more than 24 hours.

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PART II

NOTES AND COMMENTS

DE-STALINIZATION PROBLEMS

The anti-Stalin campaign this week moved into its sixth month with the Soviet leaders still trying to find satisfactory formulations for the respective roles of Stalin, the Communist Party, military leaders, and the Soviet people in the successes and failures of the Soviet state.

Line on World War II

Stalin's role in Soviet military preparedness for World War II and the question of responsibility for the early defeats have proved to be two of the most controversial issues in the whole area of historical revision.

Last May, the Soviet Defense Ministry newspaper, Red Star, attacked another Defense Ministry organ, Military Herald, for its "incorrect, harmful opinion" that "our army was forced to retreat, conduct defensive battles...as a result of failure to bring troops to military preparedness." Subsequently, Red Star itself was rebuked in the history journal, Voprosy Istorii, for its attempt to "embellish" the story of the war by minimizing Soviet defeats.

On 19 July, however, Red Star was willing to admit that all was not well in the Soviet Union on the eve of the war. While the paper again stressed that "during the years of building socialism the party undertook all measure for providing the armed forces with trained command personnel...and took care of equipping them," it blamed Stalin's intransigence for the inability of the armed forces to cope with the German Wehrmacht in the early years of

the war. He "did not undertake the necessary measures for still greater strengthening our military power during the period when war already raged in Europe and when it was clear that Fascist Germany would attack the USSR. Our industry was not truly mobilized on time for providing the army with a sufficient quantity of military equipment and arms."

Differences in the party line on the war issue appear to arise from the problem of blaming Stalin for wartime defeats without at the same time ascribing so much power to him as to credit him with the final victory, and without placing in doubt either party infallibility or the reputations of certain living political and military leaders.

The shifts in line probably reflect differences of opinion among party leaders on how best to solve the problem, rather than a tug of war between the party and the army. They may even reflect a change in the opinions of individual leaders in response to internal and external reactions to the de-Stalinization campaign.

Problem of Independence

A Pravda editorial on 16 July charged that the United States was engaged in a political campaign to exploit the de-Stalinization issue in order to "introduce dissension and confusion" in the international Communist movement. The purpose of this campaign, it was stated, was to isolate individual Communist parties, and particularly to sever their ties with Moscow, in order to destroy them. The

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editorial continued that in "expressing the national characteristics of their peoples," the Communist parties must not forget the fundamental need for unity. According to a Pravda article of 24 July, the members of the Communist movement are progressing along different roads, but will achieve the same goal because they are using the "compass of Marxism-Leninism."

A speech by party presidium member Suslov to the 14th French Communist Party congress also urged unity and a consolidation of the ties between Communist parties, but it said

nothing about the plotting of Western groups. More emphasis was placed on the primary need of each party to set its own tasks "in conformity with...the national interests of its people." Suslov said that the forms of Communist party co-operation "cannot be modeled after the same pattern suitable for all times and circumstances."

The speech was a further indication that while Moscow wants fundamental unity in the Communist movement, it does not want to give up the advantages of having the parties appear to be national and more independent.

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PEIPING STILL CAUTIOUS
ON DE-STALINIZATION

Peiping still seems to be steering a middle course between outright support of and nonparticipation in the Kremlin's de-Stalinization campaign. The Chinese Communists apparently hope to avoid intensive arguments among the party rank and file and to control whatever discussion may develop.

Peiping's recent publication of a book of material on "criticism concerning the Stalin issue"--primarily statements released by various Communist parties--is the regime's only contribution since 5 April to the de-Stalinization campaign. Moreover, while the Kremlin's resolution of 30 June and Togliatti's statements are said to be included in Peiping's book, Khrushchev's "secret" denunciation of Stalin is not.

People's Daily Editorial

The definitive Chinese Communist position on Stalin was set forth in the People's

Daily--the party's journal--on 5 April. The editorial followed the general pattern of the indictments published in the USSR at the time, but it showed the Chinese to be less inclined than the Russians to dwell on Stalin's errors. Stalin was credited with "indelible" achievements, he was not blamed for any Chinese misfortunes, and his works were described as meriting "serious study" in China.

At no time since the de-Stalinization campaign began have individual Chinese Communist leaders made any public statements on Stalin's stature. When a foreign newsman recently asked Chou En-lai to comment, the Chinese premier replied that he had "nothing to add" to the editorial's "complete review of China's position."

On two occasions, Moscow has reprinted those sections of the Chinese editorial critical of Stalin, thus apparently hoping to convey to other

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non-Soviet Communists Chinese support of its re-evaluation of Stalin. While the USSR may have wished for stronger support from Peiping--its principal ally--it would not be expected to press Peiping on the matter.

Mao's Position

Peiping's restricted participation in the campaign suggests sensitivity to the entire question of "collective leadership." The Chinese editorial strongly implied that the campaign had no relevance to the Chinese party leadership. The Chinese party for many years has been, and still appears to be, dominated and directed by Mao Tse-tung. Propaganda treatment of Mao as an eminent leader continues. His photographs are displayed prominently in public places, and his views

on party and government policy are cited as authoritative.

The Eighth Congress of the Chinese Communist Party, scheduled to convene this September, is expected to reconfirm Mao as the party's leader but at the same time to narrow the gap between Mao and other leaders in preparation for Mao's death or retirement. This would follow the strategy of the government reorganization of 1954, which reduced Mao's constitutional powers and enhanced the roles of leaders such as Liu Shao-chi and Chou En-lai. Although Mao will almost certainly remain dominant in the party, the congress, in distributing greater authority among other party leaders, will be looking toward a succession to Mao which will be more nearly a "collective leadership" in fact as well as in theory.

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DEVELOPMENTS IN HUNGARY SINCE RAKOSI'S OUSTER

Political developments in Hungary since the removal of party first secretary Matyas Rakosi on 18 July indicate a significant increase in the power of the moderate elements within the party. Many concessions to the demands of the moderates apparently have been granted by the new first secretary, Erno Gero.* Official

policy pronouncements stress the need for party unity and reflect an attempt to compromise conflicting views within the politburo and central committee. The Moscow-oriented Gero's tenure may be a temporary one made for the purpose of restraining moderate elements during the initial phase of policy transformation within Hungary.

Party realignment accompanying the Rakosi ouster significantly increased representation for moderate elements not only within the politburo but also on the central committee.

Appointments to the central committee include such moderates as Gyula Kallai, a former "home-grown" Communist who was imprisoned

*The term "moderate elements" refers to the party figures who oppose Rakosi's personal leadership on grounds ranging from conviction that greater liberalization is required in all sectors of domestic policy to a mere difference as to the best tactical approach in implementing current policies.

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in 1951, and four local party secretaries who are apparently protégés of Istvan Kovacs, an old-time party worker and secretariat member with a reputation for moderation.

Another new central committee member, Imre Horvath, who reportedly will be named foreign minister shortly, perhaps epitomizes the attitude of the moderate camp. An intellectual Communist of long standing, Horvath privately told an American official in April that the Hungarian party had lost the "trust of the people" and that the party, in the long run, could not maintain itself in power without genuine majority support.

Policy Announcement

The resolution summing up the central committee meeting of 18-21 July is conciliatory in tone and appears to be in part a synthesis of divergent views. While reasserting basic Communist tenets, it modifies the Rakosi line in virtually all areas of policy.

The resolution proclaims the primacy of heavy industry and agricultural socialization but calls for a number of slight revisions in the Five-Year Plan directives in order to improve production and workers' living conditions. It also urges immediate boosts in real wages.

Part and parcel of this aspect of the program are the energetic efforts of the new leaders to gain the support of the workers. Gero, in a revealing statement on 18 July, said, "Touch wood, there has been no Poznan in Hungary."

In censuring right-wing opportunism, the resolution

nevertheless conceded that past "symptoms of wavering and mistrust of the party" were in large part the result of "mistakes committed by the top layer of the party," and that justifiable criticism had erroneously been branded as "right-wing opportunism."

The emphasis on the role of the People's Popular Front has also been altered by the resolution. New concessions have apparently now been made to moderate demands that the front be made into a more genuinely representative body.

The resolution indicated that, in line with moderate demands, the rehabilitation of purged Communists and fellow travelers--many of whom were non-Muscovites imprisoned in the late 1940's or 1950's--would be "completed." The resolution added that greater control would be exerted over Ministry of Interior personnel

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Gero, whose health is reportedly bad, may be only a provisional appointment, designed to check the more extreme forms of factionalism and anti-party expression. Over-all policy will occupy a middle-of-the-road position and strong efforts will be made to restrain advocates of dramatic liberalization. The American legation in Budapest doubts, however, that the present compromise will halt pressure for further liberalization. The moderate forces are aware of Gero's history of doctrinal rigidity, and are unlikely to allow their position to be undercut by only limited concessions.

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POLAND'S NEW DOMESTIC POLICIES

The speech of First Secretary Ochab to the central committee of the Polish United Workers (Communist) Party of 19 July, in which he advocated a policy of moderation, indicates that the reported policy conflicts between the moderate and orthodox Communists have been at least temporarily resolved.

Ochab, who had been reported as desiring to return to a hard course, stressed the need for greater democracy and for decentralization of the administration in Poland, and he outlined a reduction in the industrial production targets for 1960. The major difference remaining between Ochab and the moderates appears to be on the question of public criticism, with Premier Cyrankiewicz stressing the need for it, and Ochab, the necessity to limit it.

Economic Matters

Much of the first secretary's speech was taken up with a discussion of economic matters, particularly those economic weaknesses which brought about the Poznan riots. He noted the country's inadequate standard of living, wage cuts, poor working conditions, the unduly high income tax, and the indifference of the trade unions. He admitted that real wages increased by only 13 percent between 1950 and 1955, blaming this largely on the unforeseen need to create an armaments industry after the outbreak of the Korean war.

Ochab announced that the 1956-60 Five-Year Plan would provide for a 53-57 percent increase in industrial production, in contrast to an announcement made earlier this year calling for a 70-percent

increase. In spite of his emphasis on the need to improve the standard of living, Ochab acknowledged that real wages would increase by only 30 percent during the next five years and that even after such an increase, the standard of living would still be relatively low. He announced that the acute housing shortage--another cause of widespread complaints--will not be significantly improved.

Along with the increased emphasis it is placing on improving economic conditions, the government apparently plans to improve the administrative structure. Four pairs of economic ministries have been merged during the past few weeks, and a new chairman has been appointed to the much-criticized State Economic Planning Commission. In his speech Ochab stressed the need for administrative decentralization so that local problems could be solved quickly on the local level.

Freedom of Criticism

On the question of freedom of criticism, Ochab took a more orthodox position than Premier Cyrankiewicz and the party moderates. Whereas Cyrankiewicz recently stated that such criticism is healthy and still insufficient, Ochab warned that much of it had gone too far. While condemning bureaucrats for their drive to suppress "sound" criticism, he said that "criticism from the position of the enemy" would not be allowed. He complained that the party press, including Trybuna Ludu--organ of the central committee whose editor was recently dismissed--had failed to present the achievements as well as the failures of the past year, and he warned against future outbursts against the party.

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Although the scheduled reforms do not go as far as the moderate Communists would like, they probably will enable the two groups in the party to work together in at least

ostensible harmony for the time being. It is unlikely, however, that they will be sufficient to win the genuine co-operation of the public.

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NEW ICELANDIC GOVERNMENT

The six-man coalition cabinet which assumed office in Iceland on 24 July includes two representatives of the Communist-dominated Labor Alliance. Iceland's adherence to NATO is not immediately threatened, but the new government will undoubtedly press for revisions in the status of the American-manned Keflavik air base along the lines of the parliamentary resolution of 28 March calling for the withdrawal of American troops. The Communists' participation in the government may enable them to exercise a greater influence over the nation's economy with a view to building a strong political machine.

Composition

The Progressives, the Social Democrats and the Labor Alliance, which consists of dissident left-wing Socialists and Communists, each received two posts in the new government which is headed by the opportunistic Progressive Party chairman Herman Jonasson. Despite the opposition of the Labor Alliance, Gudmundur I. Gudmundsson, vice chairman of the Social Democratic Party, obtained the post of foreign minister, this having been the Social Democrats' condition for participating in the government. The new incumbent is a strong pro-Western, right-wing Social Democrat.

Ludvik Josefsson, a Communist, obtained the Ministries of Commerce and Fisheries. The Labor Alliance also secured the Ministry of Social Affairs, shorn, however, of the tempting Unemployment Compensation Fund, which it had hoped to use to strengthen its position with labor. Through these posts Communists hope to promote socialization and nationalization schemes.

Base Question

The Labor Alliance presumably accepted the Social Democratic condition for participation in the government that the new government issue a declaration of Iceland's continued adherence to NATO. Gudmundsson, who arrived in Oslo on 22 July for "private talks," has reportedly assured Norwegian leaders that Iceland does not intend to leave NATO, but he also reiterated Iceland's decision to bring about a withdrawal of American troops. Gudmundsson is said to believe that American planes, equipment and specialists should remain, but not "uniforms."

In a radio broadcast on 24 July, Prime Minister Jonasson stated that his government's aim was to adhere to NATO but that the treaty of 1951 between Iceland and the United States should be revised immediately so Icelanders themselves could maintain and guard the Keflavik

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air base, allowing United States troops to leave the country. Otherwise, Iceland would leave NATO. However, no precipitous action is anticipated. The Progressives' demagogic appeal suffered a severe repudiation at the polls as shown by the Conservatives' tremendous gain in popular vote. Moreover, Foreign Minister Gudmundsson appears determined to keep matters under control.

The Communists undoubtedly will seek to expand Iceland's

already large trade with the Soviet bloc in order to end the nation's dependence on the foreign exchange earnings of the Keflavik base. This would eliminate a major economic motive for supporting the Keflavik activities. The Czech minister of trade, accompanied by an entourage of economic experts, arrived in Iceland on 24 July for a week's stay to study the fishing and fish-processing industries.

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PROSPECTS IN PERU UNDER THE PRADO GOVERNMENT

Manuel Prado, who is to be inaugurated as president of Peru on 28 July, is likely to continue the policies of his predecessor which have made Peru one of the more attractive areas in Latin America for foreign investment. However, Prado's political commitments to the non-Communist, leftist APRA, which supported him in the election, may lead to a conflict between his conservative administration and the mass-supported APRA in the legislature. This might create conditions which would reduce Peru's attractiveness as a foreign investment area.

Political Situation

Prado and most prospective members of his cabinet come from a conservative background and belong to the white elite which has maintained the traditional social and political structure more successfully than anywhere else in Latin America. Prado's negotiations with leaders of the outlawed APRA just before the elections reflected no basic change in his conservative political



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philosophy, but were merely an effort to swing the organized APRA vote away from the government candidate.

The large APRA vote, which was apparently delivered to Prado in the belief that his election offered the best chance of legalizing the party, resulted not only in his unexpected victory, but also in a new congress of heterogeneous elements.

APRA is unlike other Peruvian political groups in

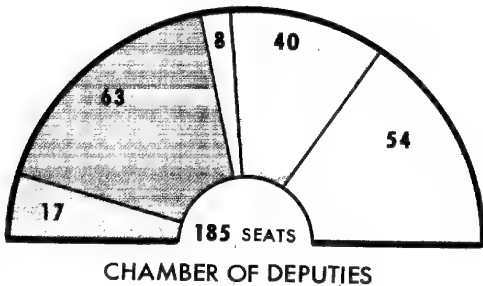
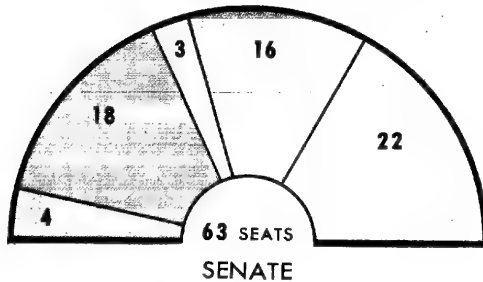
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PERUVIAN CONGRESS

(ACCORDING TO PRESS REPORTS)



- ☐ **BELAUNDE** (Supported by dissident APRA elements)
- ☐ **INDEPENDENT** (Reportedly APRA)
- ☐ **DEMOCRATIC CHRISTIAN**
- ☐ **NATIONAL UNION**
- ☐ **PRADO**

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that it is a modern political party with mass appeal. It is typical of several Latin American political parties in being Marxist-influenced and pro-labor, although non-Communist and not avowedly a labor party.

It apparently plans moderation in pressing most of its demands on the new administration and will devote its main strength to securing legalization. Popular support for such legalization is countered by bitter conservative and military opposition.

Legalization of APRA would almost inevitably be a prelude to extensive social and economic change, while failure to legalize the party would probably be conducive to serious popular unrest. The problem thus posed seems likely to threaten the

economic and political stability which has contributed heavily to the favorable climate for foreign investment in Peru.

Prado's ability to cope with this situation is doubtful. He ruled as a dictator during most of his 1939-45 presidential term and gained no experience in dealing with a freely elected congress. His proposed inclusion of several Communist-linked figures in his administration suggests that he may try the conservatives' old tactic of using the relatively weak Communists as a counterweight to APRA.

Economic Boom

For the past several years, Peru has been experiencing boom conditions. As the fourth largest Latin American country, with a diversity of natural resources exceeded only by Brazil and Mexico, Peru has attracted considerable foreign capital and has displayed an unusually friendly attitude toward it.

The most important of current projects is the exploitation of an estimated one billion tons of over 1 percent copper ore in southern Peru at a cost of \$200,000,000. A new American-owned company has begun development at Toquepala, and in four years it expects to export 140,000 tons of copper yearly, slightly over a third of current production in Chile.

The pressures of economic growth have been reflected in significant wage increases for mining and agricultural workers. Urban labor, which was permitted no increase in real wages during the 1951-55 period, gained substantially through successful strikes in the pre-election freedom of the first half of 1956. A continuation of sharp wage rises, perhaps through the efforts of the APRA-controlled National Confederation of Labor, would threaten inflation.

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FRENCH NORTH AFRICA

Algeria

The Algerian rebels, possibly supported by Moroccan guerrillas, have revealed their possession of more and better automatic weapons in a series of clashes with French forces in western Oran since 19 July. In these actions, the rebels reportedly showed greater strength than at any time since late May.

Tunisia

Tunisian withdrawal from negotiations with France on 13 July, when an impasse was reached on the critical defense issue, illustrates the extreme sensitivity of the Bourghiba government on the subject of Tunisia's sovereignty. The Tunisian negotiators walked out when they could not secure France's recognition in principle that French troops would ultimately evacuate Tunisia, including the strategic French base at Bizerte. France is unwilling to make such a commitment in view of the probability that the Tunisians are supporting the Algerian rebels.

French officials in Paris look on the suspension as a "minor family row," expecting that the serious economic and financial situation in Tunisia will force the Tunisians to seek to reopen negotiations. The Tunisian government, however, strongly supported by the Constituent Assembly, is not likely soon to take such an initiative.

Faced with the widespread appeal of Salah ben Youssef's extremism, Premier Bourghiba cannot afford to yield to the French. The premier may attempt to break France's economic stranglehold over Tunisia by seeking economic aid elsewhere. French sponsorship of Tunisia's application for membership in the United Nations, which Paris hopes will mollify the Tunisians, is not likely to do so.

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THE FRENCH COMMUNIST PARTY'S
14TH CONGRESS

The 14th Congress of the French Communist Party held at Le Havre on 18-21 July has confirmed Secretary General Maurice Thorez' control of the party. Emphasis was laid on unity of action with the Socialists, foreshadowing a heightened campaign for Communist-Socialist co-operation. Party organization problems received only perfunctory attention.

The congress was geared to give incontrovertible evidence of party solidarity despite the effects of Moscow's de-Stalinization campaign. Maurice Thorez' re-election as secretary general and the Soviet delegate's reference to him as a "dear friend" emphasize his continuing leadership. Thorez paid lip service to the value of criticism of the cult of personality, but he stressed that such criticism could not be "transferred mechanically" to the French Communist Party. The de-Stalinization drive within the French party thus seems to be successfully checked, and Thorez' strong attack on the haphazard discussion of any subject appears to signal a muffling of all intraparty criticism.

Unity of action with the Socialists was given special emphasis at the congress, and the chief of the visiting Soviet delegation stated in his "directive" the great importance attached to such collaboration. The most immediate result of this policy is likely to be a stepped-up effort to secure

Socialist rank-and-file co-operation against the recall of reservists for Algeria. Such a campaign can be expected to concentrate on the government's reported plans to import foreign labor to meet the shortage stemming from the manpower needs of the present military effort. Labor grievances are on the rise generally, and mounting living costs are arousing increasing unrest which the Communists can readily exploit.

Jacques Duclos' speech on 21 July further underlined the need for united action, even at the risk of not being ideologically consistent. Speaking on the role of "municipalities for the working masses," he stressed that all local Communist officials were subordinate to local party organizations.

The 14th Congress devoted relatively little time to internal party organization as compared to the congress in 1954. Thorez played up the party's strength and undertook to refute arguments of those who think that the Communist Party can disappear. He claimed that nearly 50,000 new members have joined since January, but added that some recruitment weaknesses exist, particularly among metal and mine workers. He also emphasized the weakness of the Communist youth organization, and baited an appeal to intellectuals to join the party by reiterating the "different roads to Socialism" thesis.

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TRAVELS OF SOVIET LEADERS

The last two weeks have seen the greatest exodus of top Soviet leaders from Moscow since collective leadership was established after Stalin's death. As of 22 July, 12 of the 20 members of the presidium and secretariat, including the most prominent ones, were either on official trips in various parts of the world or vacationing. This left only five of 11 full members of the presidium in Moscow. Such a dispersal suggests the existence of a high degree of mutual trust among the members of the collective.

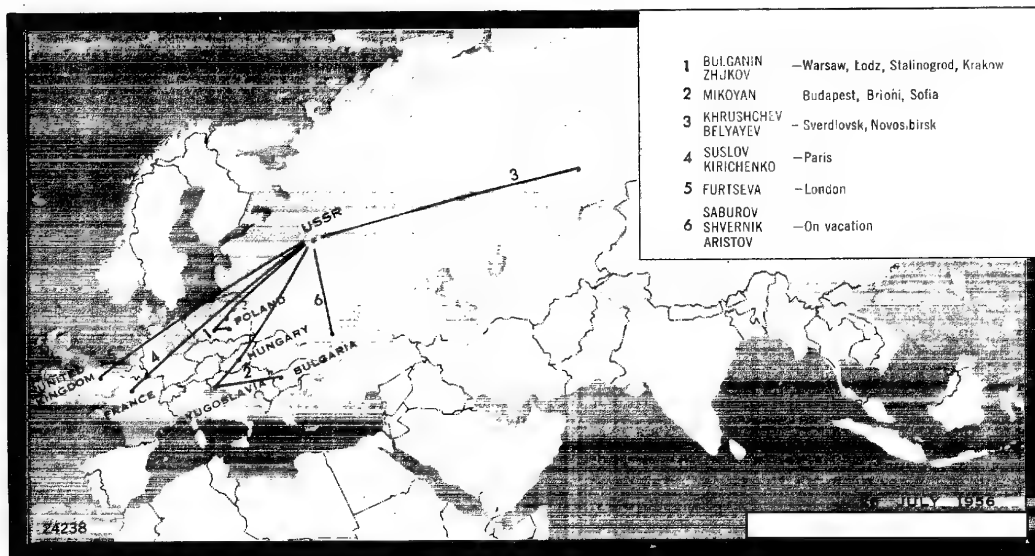
Some of the top leaders left Moscow early in July even though the Supreme Soviet was scheduled to meet on the 11th. Presidium members Mikoyan, Kaganovich and Saburov were reported by Soviet officials to have left on vacation around 2 July. Kaganovich returned to Moscow in time for the Supreme Soviet session. Saburov is still on vacation, as apparently are Shvernik and Aristov.

Mikoyan, however, apparently went to Budapest sometime around

18 July. His presence in Hungary at the time of the party plenum at which Rakosi "re-signed" was not officially reported until Mikoyan left for Yugoslavia on 21 July. After a brief conference with Tito on the island of Brioni, Mikoyan stopped off in Sofia on 23 July en route to Moscow.

Presidium candidate Furtseva left for London on 12 July as head of a parliamentary delegation, and Suslov and Kirichenko, both full members of the presidium, arrived in Paris on 16 July to take part in the French Communist Party congress.

On 19 July Khrushchev, immediately after seeing off the last of a long series of visiting Communist delegations, flew east to Sverdlovsk to attend an agricultural conference and what may turn out to be the first of a series of mass rallies of agricultural workers in the new lands areas. On the last day of the conference, Khrushchev addressed a crowd of 200,000 and then, accompanied by party secretary Belyayev,



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visited various collective farms and went on to Novosibirsk to attend a similar conference.

Bulganin and Zhukov left Moscow on 21 July for Warsaw to represent the Soviet Union at the celebrations of the "12th anniversary of the liberation of Poland." After touring

several provincial towns, they are expected back in Moscow about 27 July.

For a brief period, responsibility for government and party affairs was left in the hands of Malenkov, Moroshilov, Kaganovich, Pervukhin, Molotov, Shepilov, and party secretaries Brezhnev and Pospe-
lov.

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**EUROPEAN AND ASIAN SATELLITES
ANNOUNCE ARMED FORCE REDUCTIONS**

Czechoslovakia's announcement of 23 July that it would make additional cuts in its armed forces brings to seven the number of Sino-Soviet Satellites that have followed the Soviet "example" of 14 May. Rumania, Hungary, and Poland, which, like Czechoslovakia, followed the Soviet pattern of announcing reductions in the fall of 1955, have indicated they will make further cuts. East Germany, North Korea, and North Vietnam have announced reductions for the first time.

reductions, which would have little effect on military capabilities but which might be of considerable propaganda value.

While most of these announcements were designed to have an impact on world opinion, the East German announcement was timed specifically to embarrass the West German government, then in the process of enacting a conscription bill. Besides declaring its intention to implement a 25-percent cut,

No indications have been received concerning the intentions of Bulgaria and Albania, although they also may be expected to toe the line. In May, Czech premier Siroky had stated in an interview that the Czech forces were already at the "peace level," and that further reductions would be undertaken only if the West took the initiative.

ANNOUNCED ARMED FORCES REDUCTIONS IN SINO-SOVIET BLOC

	PRESENT ESTIMATED STRENGTH	REDUCTIONS 1955	REDUCTIONS 1956
USSR	4,200,000	640,000	1,200,000
ALBANIA	31,000	9,000	
BULGARIA	189,600	18,000	
CZECHOSLOVAKIA	192,000	34,000	10,000
EAST GERMANY	118,000		30,000
HUNGARY	161,500	20,000	15,000
POLAND	292,700	47,000	*
RUMANIA	236,200	40,000	
NORTH KOREA	365,500		80,000
NORTH VIETNAM	298,000		80,000

* Has announced intention to reduce, but figure not yet made public.

In most instances, the proposed cuts are little more than token

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and to fix the strength of its armed forces at the resultant 90,000 men, East Germany indicated that it would maintain its forces on a voluntary basis. This decision was probably influenced by the critical

manpower shortage in East Germany and by public opposition to the introduction of conscription, which could, however, be introduced at a later date to meet the "threat" of West German rearmament.

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JAPANESE INCREASE AWARENESS OF INTERNAL SECURITY THREAT

Japan's vulnerability to subversion stems more from the inadequacy of the government's security system than from the capabilities of the Japan Communist Party (JCP). The probability of renewed diplomatic relations with the USSR has made conservative leaders increasingly conscious of the security problem. The government probably will move slowly and cautiously to improve the situation.

Japan has no anti-espionage legislation and no laws safeguarding military information other than that applying to materiel received under the Mutual Defense Assistance Agreement with the United States. Regulations on handling Japanese government classified information provide extremely light penalties. A lack of physical security facilities and lax security discipline contribute to this unsatisfactory situation.

Position of Communist Party

The JCP has limited support among the people and possesses little direct political influence on national policy. Its status as a legal party and its policy of infiltrating the leadership of non-Communist mass organizations, however, has allowed it to promote considerable popular support for the objectives of undermining

the American position and promoting policies contrary to American interests. The party, reportedly, also has attained some success in placing members in minor government positions and to a lesser degree in the enlisted ranks of Japan's defense forces.

Government and Liberal-Democratic Party leaders are becoming increasingly conscious of the security threat posed by the JCP, particularly in view of pending diplomatic relations with Moscow. They, however, are divided on ways to meet the threat along the same lines as over the Soviet peace treaty. Those who favor a "quick" peace settlement fear that a strong anti-Communist policy at home will jeopardize the peace negotiations, and the advocates of a "go-slow" policy tend to support tighter security controls. This division of opinion, the fear of being charged with reviving the prewar "thought police," and preoccupation with intraparty politics has thus far prevented any tightening of security controls.

Counterespionage Legislation

Prior to the 8 July upper house elections, the chief cabinet secretary announced that the government intended to introduce a counterespionage bill in the next Diet. Socialist election gains, in conjunction with

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Japanese public sensitivity to any hint of prewar police activities, will increase government reluctance to promote such a law and may preclude its introduction. Possibly the government will seek passage of a weak counterespionage law with the idea of strengthening it later.

Government leaders will probably move to tighten existing security controls through better liaison among security agencies, improved co-ordination, and the expansion of existing agencies. Some reorganization of Japan's security agencies is also likely.

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NEW CHINESE COMMUNIST TRADE CAMPAIGN IN JAPAN

The pattern of Sino-Japanese trade since the beginning of 1956 suggests that Peiping has taken a new tack in its campaign to reduce American influence in Tokyo. Since the beginning of 1956, Chinese imports from Japan have increased while sales to Japan have declined. At the same time, Peiping has apparently eased its demands for goods subject to trade controls in exchange for exports to Japan.

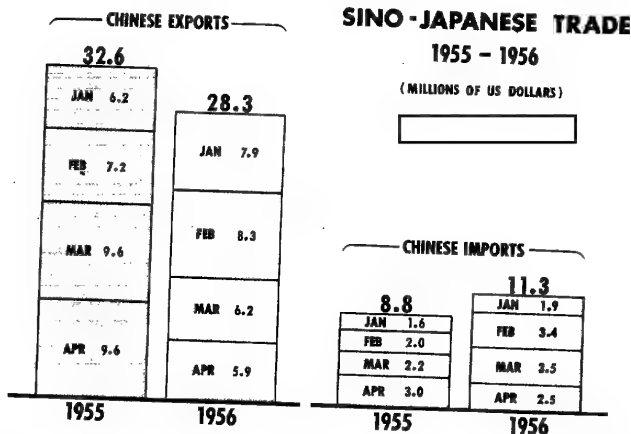
So far this year Peiping has bought or is negotiating to buy about \$7,000,000 worth of nonstrategic goods from Japan. Further orders are in prospect as the demand increases for construction materials and

chemical fertilizer to carry out Peiping's expanded industrial and agricultural programs.

Large Chinese orders for unembargoed commodities, which the Japanese can ship without embarrassment, will remove one of Tokyo's principal objections to trade with Communist China--that Peiping has offered to buy strategic materials as a political weapon. Increased Chinese purchases will whet the demands of Japanese business interests for closer official ties with Communist China, which in turn would facilitate greater trade.

The increase in Chinese orders also illustrates the new "co-operative" approach toward Japan advanced by Chou En-lai in a recent news conference. Chou told visiting Japanese reporters that the most important thing in Sino-Japanese relations was "practical co-operation," and said that problems such as resumption of diplomatic relations could be settled later.

Sino-Japanese trade negotiations



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are scheduled for next October, and pressures from business groups in Japan may bring about an exchange of permanent commercial representation at that time. The Japanese government has already indicated it would

approve establishment of a Chinese Communist trading office in Japan and that it is considering a new payments agreement with Peiping. [REDACTED]

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SINO-SOVIET BLOC DRIVE
IN INDONESIA

With Indonesian president Sukarno scheduled to depart on 26 August for a tour of the Soviet Union, Eastern Europe and Communist China, the Sino-Soviet bloc is intensifying its political, economic, and cultural campaign in Indonesia in order to obtain maximum advantage from the visit. Prime Minister Ali is scheduled to make a similar tour later this year.

Communist China for renegotiation of an annual commercial agreement.

Both Peiping and Moscow have expressed a desire to buy rubber--Indonesia's principal export--and the Chinese are also interested in increasing their purchases of copra, another product which Indonesia is anxious to sell.

Commercial

A Soviet technical assistance offer is now "under profound study," according to an Indonesian Foreign Ministry spokesman, and a Soviet mission is to arrive soon to negotiate the first trade agreement between the two countries. The mission may also discuss credits and the assistance offer, although Indonesian Foreign Ministry officials have stated they would prefer not to finalize the assistance agreement until after Sukarno's return from his tour.

Indonesia will soon send an industrial mission to the USSR and Eastern Europe, and plans to send a delegation to

Indonesia has signed a credit agreement with Czechoslovakia, and trade and payments agreements with three other Eastern European Satellites are scheduled for renegotiation. According to one report, even North Vietnam is angling for a trade treaty.

Cultural

Cultural exchanges have developed rapidly, and several Indonesian sources have stated to the American embassy that word is being spread that "almost anyone" who wishes to visit the USSR or China can go whenever he desires and at no expense to himself. [REDACTED]

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[REDACTED] money appears to be no bar to any aspect of the Communist cultural

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offensive. The Soviet embassy's monthly Indonesian-language magazine is published at four times the cost of its American equivalent.

Diplomatic

On the diplomatic front, the Czech minister arrived in mid-July, soon after the arrival of Poland's chargé and Hungary's minister. Bloc diplomatic representation in Indonesia hitherto had included only the Soviet and Chinese ambassadors.

All Communist nations represented in Djakarta are

reported to be enlarging their staffs.

The Indonesians seem eager to extract the maximum benefit from the bloc's travel grants, and the government--having placed renewed emphasis on "balancing" its foreign policy --is receptive to expanding diplomatic and commercial relations with the Communist world. The extent of increased Indonesian relations with the Sino-Soviet bloc, however, probably depends in great degree on President Sukarno's impressions during his tour and the nature of any additional offers the Communists may make to him.

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PART III

PATTERNS AND PERSPECTIVES

THE PLAN FOR SYRIAN-EGYPTIAN UNION AND OTHER ARAB UNION PLANS

Syria's proposal for a union with Egypt, now under consideration, fits into a pattern of plans for various combinations of Arab states and for a union of all Arab states which have been advanced over a number of years. The Syrian proposal, however, must be viewed particularly in the light of Syria's immediate desire for protection against Israel, and on the Egyptian side, in terms of Egypt's desire to exclude Iraqi influence in Syria, Lebanon, and Jordan.

Arab Motivation

Arab desires for unity are primarily a reaction to the fragmentation of the Arab world following the breakup of the Turkish empire after World War I. If the Arabs could cast off the artificial divisions which they believe were imposed in order to keep them weak, and unite in one great Arab state, they could, they believe, present a united front to (1) the West and (2) more important, against Israel. The theme of unity has had new impetus as a result of the bitterly humiliating defeat Israel handed the Arabs in 1948. If the Arabs had been united, they believe, this would never have occurred. Unified, they could become a force capable of determining their own destiny.

Union, too, would right the unequal share of the natural resources between the Arab states which resulted from the division of the Middle East into individual states. Many Arabs feel that the oil--the only major Arab resource--should be shared for the benefit of all. There is considerable criticism of the way Saudi Arabia uses its oil revenue monies, and of the

tremendous unshared oil wealth of Kuwait.

Variety of Plans

There have been a variety of plans for Arab unity. Iraq has long favored a union of the Hashemite dynasties of Iraq and Jordan and of union with Syria. Syria seeks the reabsorption of Lebanon, which was carved out of Syria by the French. The re-establishment of the historical "natural" Syria, the union of the fertile crescent states--Iraq, Syria, Lebanon, Jordan, and Palestine--is another dream. There have also long been dreams of the union of all the Arab states into one great state, an idea which brings visions of the days of the Arab conquests from the seventh through the eleventh century.

Unity in Practice

Despite the multiplicity of plans for union, none has been established. The closest the Arab states came was the formation of the Arab League in 1945. But the league as established underscored Arab disunity and the desires of the Arab rulers and governments to maintain their independence and sovereignty rather than achieve unity. The Israeli war clearly indicated that Arab rivalries take predominance over unity of action. The league remains a discredited debating society rather than any real basis for Arab union.

Vested interests have arisen as a result of the establishment of individual states. Each state, while paying lip service to unity, jealously views another state's attempts at a combination not as a move toward Arab unity, but as an attempt to

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establish predominance. The opposition of Saudi Arabia to any spread of Iraqi influence and the present contest between Egypt and Iraq are examples. Egypt, probably correctly, views Iraq's joining of the Baghdad pact as an attempt to lure other Arab states to Iraq and away from Egyptian influence.

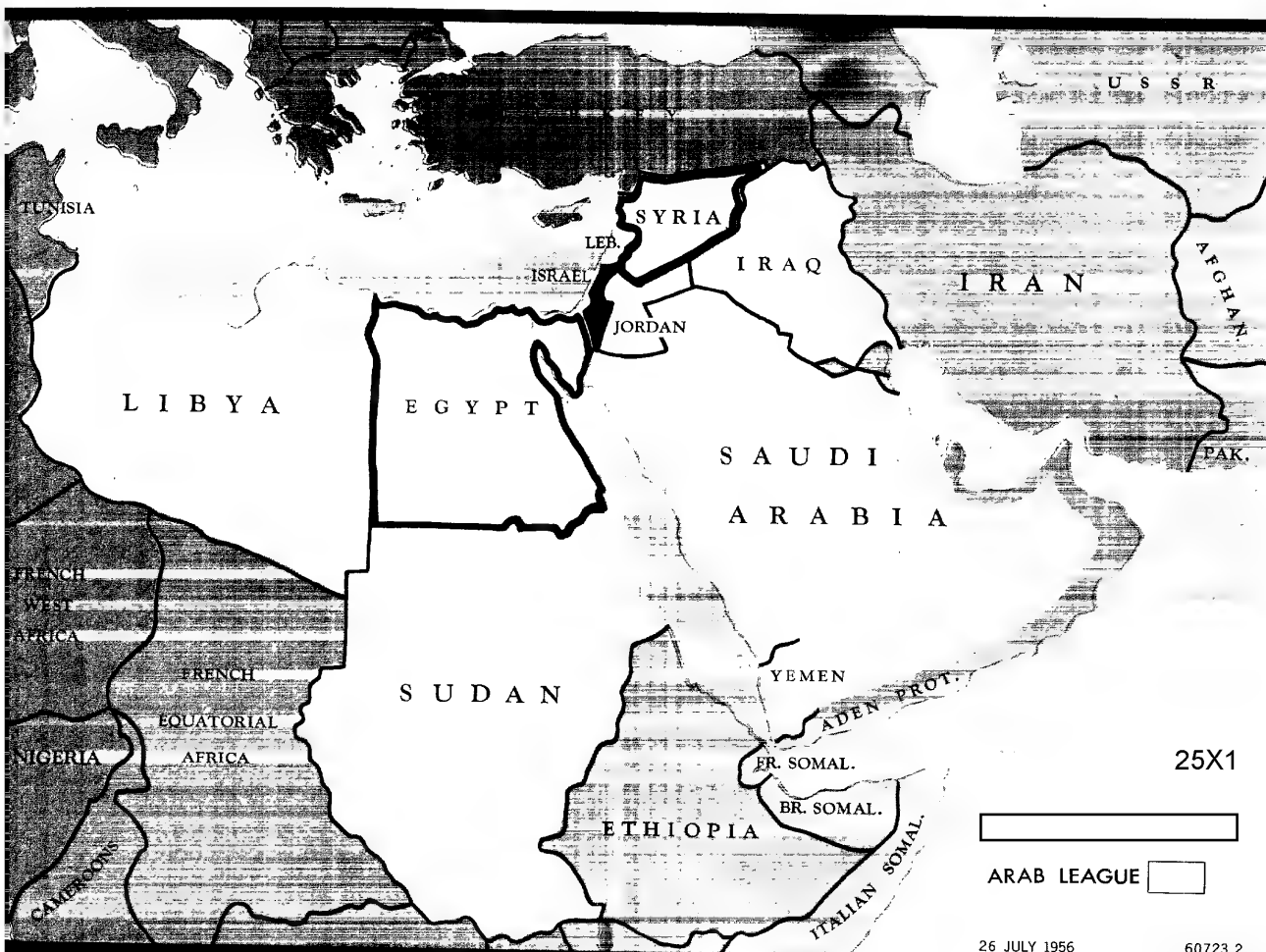
British backing of and French opposition to union plans also have been important factors. Britain favors the union of the Hashemite dynasties it established after World War I, but opposes plans which might threaten their influence. France views union of its former mandate Syria with other

Arab states as a threat to French influence.

Syrian-Egyptian Union

The Syrian proposal for union with Egypt stems most immediately from a desire to achieve a firm tie with a militarily strong protector against Israel. Iraq, the other possible protector, is tied in Syrian eyes to the West and hence cannot be entirely depended on in a crisis.

Syria made its first public bid for union with Egypt in January 1956. Nazim al-Qudsi, a leader of the conservative Populist Party, proposed at a

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banquet in Damascus honoring an Egyptian delegation, that Syria and Egypt unite politically as a first step toward comprehensive Arab unity. According to the press, the Qudsi proposal had advance approval from all Syrian political parties and parliamentary groups. Qudsi said a parliamentary delegation would visit Egypt to hold preliminary discussions.

The issue came to the fore again in June at the time of the formation of the present "national" government headed by Prime Minister Sabri al-Asali. Disagreement over a statement on union with Egypt was an important factor which held up the forming of the Asali government and almost brought it down before it was confirmed.

Syrian-Egyptian union is most actively being promoted by the leftist, pro-Egyptian Arab Socialist Resurrection Party, which holds two ministries in the Asali cabinet. Most conservatives, though they cannot speak out against Arab unity, are privately opposed, and consented to the cabinet statement only because its proponents agreed to include provisions opening the arrangement to other states.

On 6 July, after preliminary talks in Cairo, the Syrian parliament approved a unanimous cabinet decision to set up a ministerial commission --composed of the prime minister, the foreign minister and the minister of interior--to negotiate "federal union" with Egypt "provided this union shall be open to other liberated Arab states." Asali said that when agreement was reached with Egypt, a bill would be presented to the Syrian parliament for approval.

The Form of Union

The Syrian parliamentary resolution stated that the

union would be a federal union. Egyptian president Nasr has used the term "federation" rather than merger. Syrian foreign minister Bitar, quoted in a press interview in Cairo, indicated that the arrangement would include cultural, economic, military and foreign policy union, and stated that the plan eventually would result in a combining of the Egyptian and Syrian constitutions. [REDACTED]

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[REDACTED] union would provide for (1) joint irrigation projects in Syria and the settlement of Egyptians on the reclaimed land, (2) joint cultural and education projects, (3) union of the Syrian and Egyptian armies, (4) joint intergovernmental standing committees, and (5) a common constitution.

The Egyptian ambassador in Damascus told American embassy officials that once the Syrians agree, Egypt will accept any form of association the Syrians propose.

Egyptian Reaction

Though the plan for union as envisaged by the Syrians would firmly place Syria in the Egyptian camp and prevent the extension of Iraqi influence into Syria, Lebanon, and Jordan, the Egyptians appear to be somewhat cautious of the Syrian proposal. Nasr said on 6 July that he received the Syrian parliament resolution with "great satisfaction" and that Syrian-Egyptian union would be a "fundamental step toward the formation of the Arab nation," but the Egyptian press has been lukewarm on the subject.

Saleh Salim, a former RCC member, warned in his newspaper that no concrete steps should be taken until it is clear that a substantial majority in both countries will support union "irrespective of the opposition

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which is bound to develop from within and without." Ambassador Byroade commented on 6 July that he doubts Egypt is now interested in pressing federation beyond the talk stage, although Egypt will be compelled to avoid a flat rebuff to Syria's advances. Byroade added, however, that if Iraq and Turkey make an issue of the union proposal, Egypt may be forced to take a more positive stand.

Syrian Disenchantment

Syrian disappointment over Egypt's reaction is indicated in the remarks of a high official in the Syrian Foreign Ministry. This official told the American embassy on 3 July that the Syrians were then more or less convinced that Egypt was opposed to union now. He said this was indicated by the Egyptian requirement that all Syrian parties agree and the Egyptian proposal to set up study committees. The official said that there may be a move to combine diplomatic

representation in some countries and closer economic association, but he considered other developments unlikely in the near future. The American ambassador in Damascus commented on 7 July that it was unlikely that Syria would force the issue at this time.

Outside Opposition

The mere mention of Syrian-Egyptian union has aroused concern outside Syria and Egypt. Officials in Turkey, Iraq's partner in the Baghdad pact, told American officials in Ankara that the union project is obviously intended to prevent Syrian orientation toward Iraq and the West. [redacted]

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[redacted] Saudi concern over the degree of Egyptian influence in Syria. Lebanon would also be seriously alarmed by such a union, since this would exert pressure on Lebanon also to join with Egypt. Jordan too would probably find it impossible to maintain its independence between the two opposing camps. [redacted]

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BRITAIN MODIFIES POLICY TOWARD SOVIET BLOC

Prime Minister Eden is shifting the emphasis of Britain's economic, defense, and foreign policies, apparently to prepare for an extended period of sharply competitive peaceful coexistence with the USSR. The belief in Britain that a

general war is unlikely in the foreseeable future and the need to deal with the nation's economic ailments are leading London to consider a substantial switch in energy, money, and manpower away from the defense program.

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In relaxing diplomatic barriers and encouraging trade expansion and increased contacts at official levels, the British government is reflecting the public's hope that the Soviet bloc may be so opened to Western influences by these policies as to bring about eventually a basic modification of the Soviet system. At the same time, Britain maintains its guard against Soviet influence in such vital areas as the Near East and Southeast Asia.

Public Optimism

If not actually leading opinion, Prime Minister Eden has at least kept pace with the public's belief that the danger of war has decreased ever since the Geneva "summit" conference. "We seem to be moving from a cold war to a tepid peace," typifies the trend of his public utterances.

The more cautious view of most British officials appears not to affect the outlook of Eden, whose personal direction of foreign policy probably exceeds that of Churchill during his later years as prime minister. Eden's tendency to adjust policies has not been restrained by official estimates to the effect that Soviet forces in Germany as of late June were more powerful than at any time since 1946, despite the recent withdrawals. Similarly, the dangers the Foreign Office sees in the greater appeal of the "softer" Communist line since the 20th party congress are not publicly stressed by Eden.

In recent months, public pressure for policy changes has been increasing. Above all, the spectacle of Malenkov, Khrushchev and Bulganin soliciting popular favor in Britain this spring strikingly emphasized to the British public the metamorphosis in the Soviet approach. Popular impatience with Western policy is indicated by the favorable reaction to the USSR's announcement on 15 May of its intention to reduce its armed forces by 1,200,000. A USIA poll taken immediately thereafter revealed that, in a complete reversal of previous sentiment, Britons cited the USSR twice as often as the US as the country making the more serious effort toward general disarmament.

The prime minister's statements also return to plague him in opposition attacks. In the House of Commons, the day-to-day emphasis of Labor speeches, questions, and motions is that the change in the international climate requires the government to revise its policies on a wide range of topics, from Chinese UN membership to nuclear test explosions.

Economic Problems

Britain's continuing economic difficulties also argue for policy changes, particularly at a time when the Soviet bloc is conducting a sharp trade offensive. Industrial and some financial observers speak in "crisis" terms, and Eden, speaking in late June, said the loss of export markets would do to Britain "what the U-boats twice failed to do."

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The recent modest improvement in Britain's balance of payments has not significantly lessened the threat posed by domestic inflation. The resulting slow but steady rise in British export prices has increased the difficulty of competing abroad. In addition, in the engineering industries, which are assuming increasing importance in Britain's foreign trade, the shortage of labor is particularly acute, and it is with these key facilities that military production competes most directly.

Pressure for Defense Cuts

Pressure for changes in British policy to meet the twin conditions of the decreased danger of war and the economic crisis at home has been directed principally at reducing the defense burden in order to concentrate on improving the country's competitive position.

By mid-July, public demands for sweeping defense cuts reached a crescendo. On 18 July, the Parliamentary Labor Party urged a "substantial" reduction in the defense budget and an end to conscription by the end of 1958. A few days earlier, the Liberal Party leader, Clement Davies, had advocated a slash of one third in defense spending.

The government is evidently considering a fairly drastic across-the-board defense cut--far beyond the three-percent reduction in current spending announced in late June, which left the size and shape of forces intact. Press reports, apparently officially inspired, state that a reduction of about one fourth in the defense budget is planned. The government has denied this.

Although these reports are probably exaggerated, they do suggest the magnitude of the current reappraisal. The American embassy in London believes that Britain will move "as fast

and as far as possible" to reduce its forces within the limits necessary to cover its overseas responsibilities.

Highest among these responsibilities is London's pledge to retain its four ground and one tactical air divisions on the European continent. Britain can obtain release from this commitment only by majority agreement of the Council of the Western European Union (the Benelux countries, France, Germany, Great Britain, and Italy), except in a dire overseas or economic emergency. The trend of the public defense debate indicates that Britain will claim that improved weapons will prevent any planned reductions from actually lowering the effective strength of British forces in Germany. British officials have stated that, in any case, they will not reduce forces without consultation with their allies.

Some clearer indication of the government's plans may come out in the defense debate scheduled for the week of 30 July.

Diplomatic Efforts

The trend of British diplomacy since the Bulganin-Khrushchev visit has suggested an increasing effort to encourage the new approach in Soviet policy. Notably, Britain attempted in May to gain Soviet co-operation on a UN Security Council resolution on the Palestine dispute. The original draft of Eden's reply to Bulganin's disarmament letter credited the Soviet Union with contributing to a better international atmosphere by its announcement of troop reductions, but this statement was withdrawn because of objections raised in the North Atlantic Council.

There have also been several efforts to promote personal Anglo-Soviet contacts. Air Secretary Nigel Birch,

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when in Moscow in June, invited a group of Soviet air specialists for the first time to observe the annual British air show in September. Eden already has announced the specific date for his own visit to the USSR ten months in advance. He plans to depart for Moscow on 5 May 1957.

Attitude Toward Soviet Activities

The shift to "competitive coexistence" has aroused hopes for new trade in Britain. A few traders foresee the opening of vast new markets in Eastern Europe once restrictions are removed, even though that area has never accounted for more than five percent of Britain's exports. The possibilities of an eightfold increase in exports to the USSR were dramatized by Khrushchev's offer in April to buy 2.8 billion dollars worth of British goods over a five-year period. Government spokesmen have emphasized that two thirds of the list of proposed goods is not subject to trade controls.

In the competition for overseas markets, many people are wary of a contest with a totalitarian power that can manipulate its commercial dealings for political ends, but some observers believe that Britain's

long experience and special talents will ensure its eventual triumph. Reports of long delays in the construction of the Soviet-backed steel mill in India, and of Soviet backtracking on the Aswan High Dam offer will support that limited self-confidence.

In the meantime, the cabinet is reported by the American embassy to be deeply concerned over the present threat of Soviet economic, political, and psychological penetration, especially in the Middle East and South Asia. Thus, London is emphasizing the counter-subversive activities of the Baghdad pact organization, and in April allowed the Singapore self-government talks to collapse rather than lose effective control over internal security there.

The government's continuing efforts to offer inducements and rewards to friendly states are seen in such measures as raising the contribution to Libya by \$1,400,000 and a possible offer to provide Iran with some naval training and to conduct joint exercises. In view of budget stringencies, however, such efforts are expected to remain meager.

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SOVIET TRANSPORTATION IN THE SIXTH FIVE-YEAR PLAN

Soviet goals for transportation in the Sixth Five-Year Plan (1956-1960) are designed to keep transportation facilities abreast of the country's fast economic development. They include increasing railway freight traffic by 42 percent, doubling highway and maritime transport, and increasing oil pipeline traffic sixfold.

Plans for the railroads call for laying twice as much track as during the previous five years, doubling the length of electrified lines, and greatly increasing the use of electric and diesel-electric locomotives. Prospects are that these goals will be fulfilled.

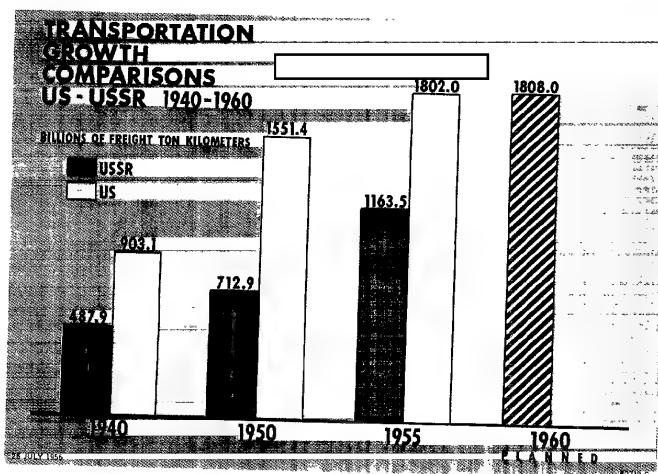
Soviet planners are perennially concerned with the problem

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65,000 kilometers of light duty rail with a new type capable of supporting greater traffic density, and (4) electrification of 8,100 kilometers, or 3.5 times the amount electrified in the Fifth Five-Year Plan.

of reducing the role of transport as a factor in economic development. Attempts to reduce the average length of freight and passenger haul and the instigation of regional self-sufficiency programs have succeeded only in easing the pressures tending to increase transportation's claim on Soviet resources. During the current five-year plan any relative reduction in transport's role is unlikely.

Railroads will continue to carry about four fifths of total traffic, despite plans to increase the relative role of all other carriers.

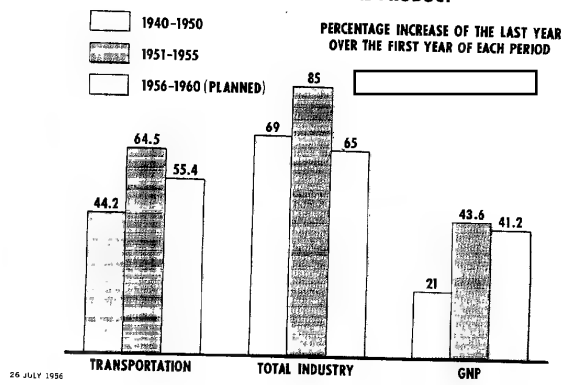
The Railroad Plan

Currently hauling about 970 billion ton-kilometers (tonnage carried times distance) per annum, the rail system is scheduled to carry 42 percent more freight in 1960 than in 1955. The plan accordingly provides for (1) addition of approximately 6,500 kilometers of new lines, (2) double-tracking of about 6,600 kilometers of existing lines, (3) replacement of

of all freight traffic by 1960, compared to 14 percent in 1955. To accomplish this, electric locomotive output is scheduled to rise 184 percent between 1955 and 1960 and diesel-electric output to increase elevenfold. Steam locomotive production is to be discontinued in 1957.

Since early 1956, the Soviet press and radio have frequently discussed gas turbine and nuclear-powered locomotives, and mass introduction of the former is scheduled for the end of the Sixth Five-Year Plan. However, since the gas turbine locomotive is only in the initial stage of production, plans may not be realized. No evidence points to serious efforts to

SOVIET GROWTH RATES TRANSPORT, TOTAL INDUSTRIAL OUTPUT, AND GROSS NATIONAL PRODUCT



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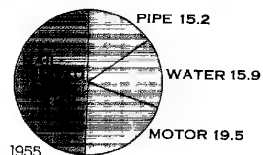
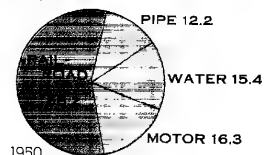
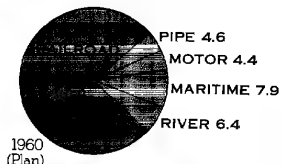
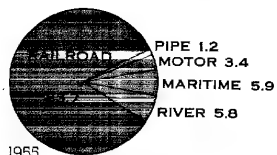
construct an atomic locomotive, but it, too, could go into production prior to 1960.

The plan provides also for increasing the average weight of freight trains by 25 percent over 1955, a reduction of 17 percent in cost of railroad operation, and an increase of 34 percent in labor productivity. These goals will be facilitated by the scheduled delivery to the railroads of at least 255,000 high-capacity 4-axle freight cars and 18,600 modern passenger cars. Moreover, by 1957, all cars are to be equipped with automatic couplings, and by 1959, automatic brakes are to be installed on all rolling stock. Wider use is to be made of automatic bloc signaling and of automatic devices for switching, loading and unloading of cars.

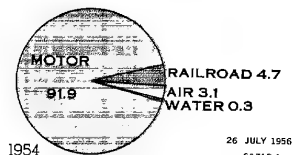
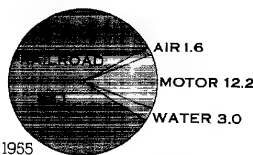
The plan emphasizes the necessity of decreasing the 1955 average turnaround time of 6.2 days by 15 percent. This goal, however, will prove exceedingly difficult to accomplish. Any gains accomplished in decreasing turnaround time by increasing average train speed will probably be offset by plans to expand agricultural and industrial activity

PERCENTAGE DISTRIBUTION OF TRAFFIC

US USSR
FREIGHT
PERCENTAGE BASED ON TON KILOMETERS



PASSENGER
PERCENTAGE BASED ON PASSENGER KILOMETERS



into remote marginal areas, thus continuing the trend toward greater average length of freight haul.

As part of the emphasis on eastward expansion, new rail lines are projected for Central Asia, Northern Kazakhstan, the Urals, and adjacent areas. Of major importance is the line planned from the industrial city of Magnitogorsk westward to Abdulino, providing a direct outlet from the South Siberian trunkline to the European part of the country and bypassing the heavily used Chelyabinsk-Ufa line. In addition, the Stalinsk-Abakan line at the other end of the South Siberian is to be completed. Soviet work on the Trans-Sinkiang railway to China will extend from Aktogay on the Turkistan-Siberian Railroad to the Soviet border, and probably as far as Urumchi, 525 kilometers beyond the border.

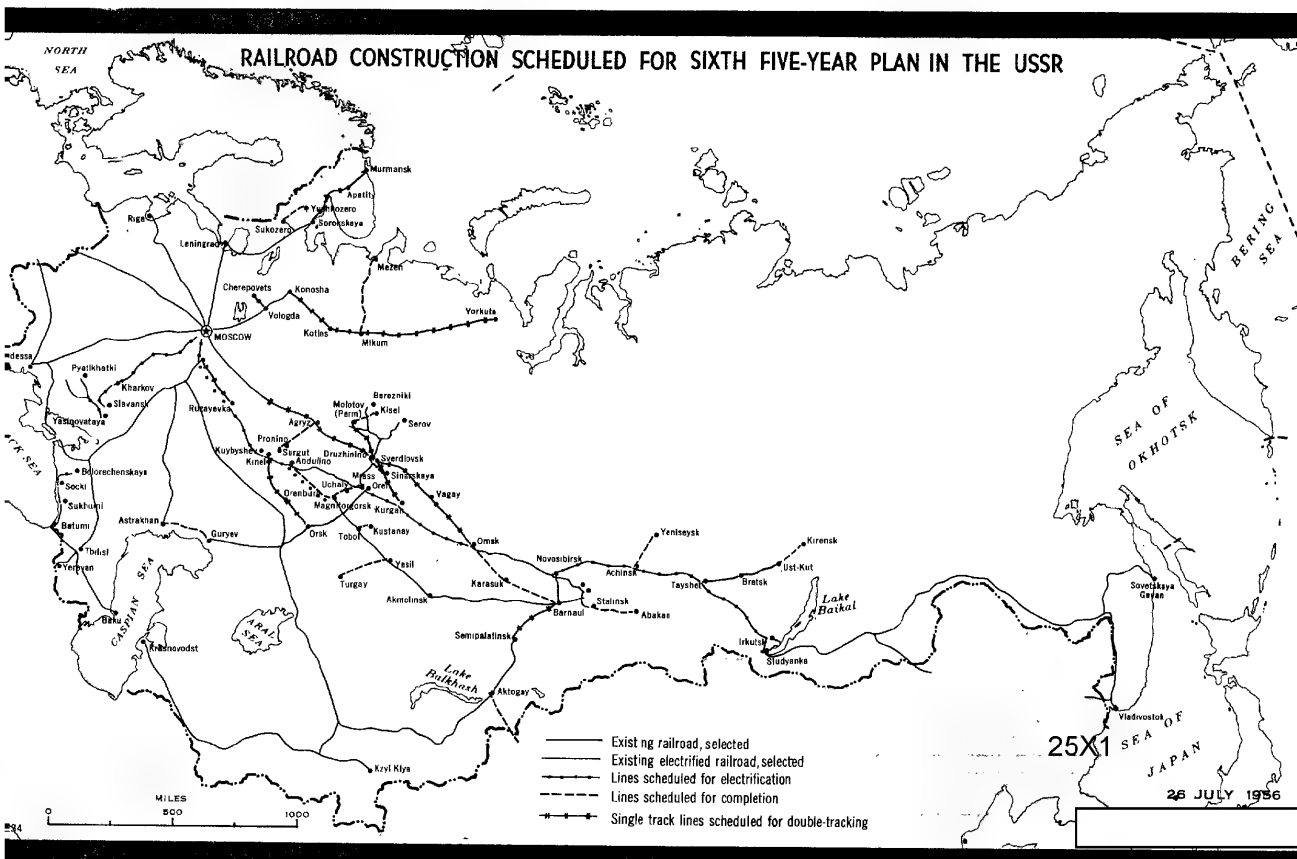
North of Leningrad, the Belomorsk-Murmansk line is to be double-tracked to within 100 miles of Murmansk, and a line is being extended from the Kotlas-Vorkuta railroad to the White Sea port of Mezen. Work on the BAM (Baikal-Amur-Magistral) line north of Lake Baikal has been resumed, with the line possibly completed to Kirensk and even farther.

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Highway Objectives

The Sixth Five-Year Plan makes little provision for highway construction. Kagano-
vich at the 20th congress said of the country's highway net-
work: "It is necessary to
say that we have few improved
highways; the question of the
development of a network of
highways is awaiting solution.
In the construction, repair
and maintenance of highways
great importance must be laid
on local initiative."

The volume of highway
traffic is scheduled to be
doubled in 1960, which would
bring performance to about 85
billion ton-kilometers. Vehi-
cle production will be at an
annual rate of 650,000 units
by 1960, or about 46 percent
above the 1955 rate. The plan
also emphasizes the production

and use of large-tonnage trail-
ers and more efficient vehicle
engines, both of which will be
instrumental in increasing labor
productivity to the planned
level of 36 percent over 1955.
Finally, a larger share of
highway haulage is to be placed
under the administration of
central motor pools to eliminate
inefficiencies of transport in
the agricultural, extractive
and industrial ministries.

Inland Waterway Program

The plan envisages an in-
crease in inland waterways
freight traffic in 1960 by about
80 percent over 1955, primarily
through fleet expansion port
improvement and increased co-
ordination with other carriers.
However, co-ordination may not
prove to be a key to success be-
cause some shippers have gen-
erally refused to ship by

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waterways, which are slow and closed to navigation in some areas for as much as nine months a year.

Physical improvements are planned to canal and river systems. Work has been resumed on Volga-Baltic waterway, which, when reconstructed, will improve the internal waterway system in the European USSR, allowing deeper-draft freight vessels, submarines and medium-draft destroyers to pass freely among the seas bordering western Russia.

Additions to the river fleet, while replacing obsolete vessels in some cases, will appreciably increase the fleet's total capacity. Vessels with a total of 720,000 horsepower will be added to the self-propelled fleet. In 1955 this

fleet had a total of 1,300,000 horsepower. Additions to the non-self-propelled fleet, which had a cargo capacity of 9,656,000 tons in 1955, will increase its total freight capacity by 2,245,000 tons.

Plans for port improvement, which envisage considerable mechanization, are designed to overcome cargo delays and concomitant increases in turn-around time of vessels, which have been perennial problems for river transport officials.

Merchant Shipping

Bulganin told the 20th congress that "development of trade with the Chinese People's Republic, the Republic of India, the Union of Burma, and other countries will result in a larger volume of export and

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import goods being carried in Soviet ships. There will be a big increase in freight carriage between our Black Sea, Far Eastern, and other basins, and via the Northern Sea Route."

The Sixth Five-Year Plan goal for the maritime fleet is to more than double the 1955 performance. The fleet is scheduled to receive 1,140,000 tons of dry-cargo capacity and 460,000 tons of tanker tonnage. Since many of the fleet's vessels are over-age, inefficient and slow, making a retirement program highly desirable, the net gain in tonnage will probably be somewhat less than 35 percent.

Reconstruction and development is projected for seaports in all areas of operation. The port of Makhodka is given a high priority, indicating its importance in Far East operations as an auxiliary port for nearby Vladivostok. Other ports scheduled for improvements are Petropavlovsk (on Kamchatka Peninsula), Odessa, Zhdanov, Nikolayevsk, Leningrad, Murmansk and Vladivostok. Emphasis is placed on new piers, quays, and warehouses, all to be highly mechanized.

Civil Air Transport

The Sixth Five-Year Plan gives very little information on air transportation. It provides for a doubling in air freight traffic and an increase in the volume of passenger traffic by 3.8 times the 1955 volume. It also calls for modernization and expansion of the operations of the civil air carrier, Aeroflot. Reconstruction of major airports is projected as is the introduction into the fleet of fast, multi-seat passenger planes,

including jet and turbo-prop planes of Soviet manufacture. The TU-104 twin-engine jet went into serial production this year and flights over certain Aeroflot routes are under way. Four-engine jet and turbo-prop transports are now under development.

Although the plan does not provide for an increase in its network, Aeroflot can be expected to extend its operations. In 1955, as a result of air agreements with Western countries, traffic on USSR international airlines increased significantly. This expansion will probably continue during the Sixth Five-Year Plan period.

The greatest increase in domestic air traffic in the Fifth Five-Year Plan was to distant regions of the north, Siberia and to the Far East. Khabarovsk airport, at the eastern end of the important Moscow-Irkutsk-Khabarovsk route, was second only to Vnukovo airport at Moscow in the volume of civil air traffic, and Magadan rose to fifth place. These areas will increase in importance as Aeroflot augments its route by additions from the regional administrations and from polar aviation.

Pipeline Development

The Sixth Five-Year Plan proposes the construction of 14,500 kilometers of new trunk oil pipelines, which would almost double the present net. New trunk lines will further serve to connect the Ural and Emba regions with each other and with the new lands area of northern Kazakhstan and central Asia. Other lines will extend eastward to the area of Lake Bykal, and in the European USSR

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new lines will connect the Ural-Volga regions with the Kama area, with Moscow, and also several large industrialized centers to the north and south of Moscow.

A sixfold increase in annual pipeline traffic is projected. Such an increase would relieve the excessive freight-loading presently imposed on the railroads and cut transportation costs as well, since transport by pipeline costs only one third that of rail transport.

Use of fuel gas is relatively new in the USSR, and as of 1955 the installed gas pipelines totaled only 5,260 kilometers. The present plan calls for a fivefold increase in the output of natural gas, a twofold increase in manufactured gas, and the concurrent construction of 9,000 kilometers of new gas transmission lines. These proposed gas lines will be instrumental in exploiting the newly discovered natural gas reserves at Shebelinka, Stavropol, and Berezova, and the recently expanded Dashava reserves.

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